

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

28-7506

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Traverse City Downtown Development Authority		County Grand Traverse
Audit Date 06/30/04	Opinion Date 08/25/04	Date Accountant Report Submitted to State: 12/30/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 250 E FRONT STREET		City TRAVERSE CITY	State MI
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>		ZIP 49684	

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Traverse City, Michigan)**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 25, 2004

Board of Trustees
City of Traverse City Downtown Development Authority
City of Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the *City of Traverse City Downtown Development Authority, a component unit of the City of Traverse City, Michigan* (the "Authority"), as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2004, and the respective changes in its financial position thereof and the respective budgetary comparison for the General Fund, TIF2 and TIF 97 Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Rehmann Robson

FINANCIAL STATEMENTS

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 767,449
Accounts receivable	1,828,680
Prepaid expenses	955
Total assets	2,597,084
Liabilities	
Accounts payable	212,792
Accrued expenses and other liabilities	13,493
Due to primary government	450,000
Long-term liabilities:	
Due in more than one year	28,316
Total liabilities	704,601
Net assets	
Unrestricted	1,892,483
Total net assets	\$ 1,892,483

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Activities
For the Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Economic development	\$ 1,674,432	\$ 389,255	\$ -	\$ -	\$ (1,285,177)
General revenues					
Property taxes					978,038
Unrestricted investment earnings					<u>8,601</u>
Total general revenues					<u>986,639</u>
Change in net assets					<u>(298,538)</u>
Net assets, beginning of year					<u>2,191,021</u>
Net assets, end of year					<u>\$ 1,892,483</u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>TIF 2 Fund</u>	<u>TIF 97 Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 112,387	\$ 289,253	\$ 365,809	\$ 767,449
Accounts receivable	10,730	311,993	1,505,957	1,828,680
Prepaid expenditures	955	-	-	955
Due from other funds	12,096	-	-	12,096
Total assets	<u>\$ 136,168</u>	<u>\$ 601,246</u>	<u>\$ 1,871,766</u>	<u>\$ 2,609,180</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 4,338	\$ 208,454	\$ -	\$ 212,792
Accrued expenses and other liabilities	13,493	-	-	13,493
Due to other funds	-	6,048	6,048	12,096
Due to primary government	-	450,000	-	450,000
Deferred revenue	-	307,300	1,502,500	1,809,800
Total liabilities	<u>17,831</u>	<u>971,802</u>	<u>1,508,548</u>	<u>2,498,181</u>
Fund balances				
Reserved for prepaid expenditures	955	-	-	955
Unreserved				
Undesignated (deficit)	117,382	(370,556)	363,218	110,044
Total fund balance (deficit)	<u>118,337</u>	<u>(370,556)</u>	<u>363,218</u>	<u>110,999</u>
Total liabilities and fund balances	<u>\$ 136,168</u>	<u>\$ 601,246</u>	<u>\$ 1,871,766</u>	<u>\$ 2,609,180</u>

Continued.....

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of the Traverse City, Michigan)

Balance Sheet
Governmental Funds
June 30, 2004

**Reconciliation of fund balances on the balance sheet for governmental funds to
net assets of governmental activities on the statement of net assets**

Fund balances	\$ 110,999
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Amounts reported for governmental activities in the statement of net assets
are different because

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	1,809,800
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Certain liabilities, such as bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct: accrued compensated absences	<u>(28,316)</u>
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Net assets of governmental activities	<u>\$ 1,892,483</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2004

	General Fund	Special Revenue Funds		Totals
		TIF 2	TIF 97	Governmental
		Fund	Fund	Funds
Revenues				
Reimbursements	\$ 362,939	\$ -	\$ -	\$ 362,939
Property taxes	65,344	336,124	576,570	978,038
Rental income	26,315	-	-	26,315
Interest income	1,332	2,373	4,898	8,603
Total revenues	455,930	338,497	581,468	1,375,895
Expenditures				
Salaries	281,983	-	-	281,983
Fringe benefits	67,150	-	-	67,150
Office supplies and utilities	18,769	406	2,460	21,635
Professional services	7,974	105,112	79,321	192,407
Travel, promotion and conferences	7,279	-	-	7,279
Repairs and maintenance	3,119	-	-	3,119
Rentals	9,003	-	-	9,003
Contributions to other governments	-	16,141	662,184	678,325
Capital outlay	10,531	402,806	224	413,561
Total expenditures	405,808	524,465	744,189	1,674,462
Net change in fund balances	50,122	(185,968)	(162,721)	(298,567)
Fund balances (deficit), beginning of year	68,215	(184,588)	525,939	409,566
Fund balances (deficit), end of year	\$ 118,337	\$ (370,556)	\$ 363,218	\$ 110,999

Continued....

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

**Reconciliation of the statement of revenues, expenditures and change in
fund balances - governmental funds to the statement of activities**

Net change in fund balances \$ (298,567)

Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Add: decrease in accrued compensated absences 29

Change in net assets **\$ (298,538)**

Concluded

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
General Fund

For the year ended June 30, 2004

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements	\$ 352,250	\$ 376,500	\$ 362,939	\$ (13,561)
Property taxes	64,100	65,000	65,344	344
Rental income	27,000	25,000	26,315	1,315
Interest income	1,900	1,400	1,332	(68)
Contributions and grants	1,600	-	-	-
Total revenues	446,850	467,900	455,930	(11,970)
Expenditures				
Salaries	340,000	290,000	281,983	(8,017)
Fringe benefits	70,550	69,800	67,150	(2,650)
Office supplies, rent and utilities	19,050	22,400	18,769	(3,631)
Professional services	11,700	11,100	7,974	(3,126)
Travel, promotion and conferences	12,500	9,600	7,279	(2,321)
Repairs and maintenance	6,400	2,200	3,119	919
Rentals	8,200	9,200	9,003	(197)
Capital outlay	1,000	9,600	10,531	931
Total expenditures	469,400	423,900	405,808	(18,092)
Net change in fund balance	(22,550)	44,000	50,122	6,122
Fund balance, beginning of year	68,215	68,215	68,215	-
Fund balance, end of year	\$ 45,665	\$ 112,215	\$ 118,337	\$ 6,122

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 2

For the year ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues				
Property taxes	\$ 338,000	\$ 338,000	\$ 336,124	\$ (1,876)
Interest income	3,500	2,300	2,373	73
Total revenues	<u>341,500</u>	<u>340,300</u>	<u>338,497</u>	<u>(1,803)</u>
Expenditures				
Office supplies and utilities	200	500	406	(94)
Professional services	94,200	94,200	105,112	10,912
Interest expense	16,150	16,150	16,141	(9)
Capital outlay	22,000	408,000	402,806	(5,194)
Total expenditures	<u>132,550</u>	<u>518,850</u>	<u>524,465</u>	<u>5,615</u>
Net change in fund balance	208,950	(178,550)	(185,968)	(7,418)
Fund balance (deficit), beginning of year	<u>(184,588)</u>	<u>(184,588)</u>	<u>(184,588)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 24,362</u>	<u>\$ (363,138)</u>	<u>\$ (370,556)</u>	<u>\$ (7,418)</u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 97

For the year ended June 30, 2004

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 564,900	\$ 573,300	\$ 576,570	\$ 3,270
Interest income	5,500	5,000	4,898	(102)
Total revenues	570,400	578,300	581,468	3,168
Expenditures				
Office supplies	100	2,500	2,460	(40)
Professional services	75,000	87,300	79,321	(7,979)
Capital outlay	36,500	36,500	224	(36,276)
Contribution to other governments	719,400	662,200	662,184	(16)
Total expenditures	831,000	788,500	744,189	(44,311)
Net change in fund balance	(260,600)	(210,200)	(162,721)	47,479
Fund balance, beginning of year	525,939	525,939	525,939	-
Fund balance, end of year	\$ 265,339	\$ 315,739	\$ 363,218	\$ 47,479

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Downtown Development Authority ("DDA"), a discrete component unit of the City of Traverse City ("City"), was created in September 1978 by the City Commission pursuant to Act No. 197 of the Public Acts of 1975 of the State of Michigan. It operates through a Board of Trustees ("Board") consisting of the Mayor of the City of Traverse City and nine members approved by the City Commission. The purposes of the DDA are to correct and prevent deterioration of the Downtown Development District, encourage historic preservation, create and implement development plans, and promote economic growth.

The Authority is a component unit of the City of Traverse City, Michigan (the "City") because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *TIF 2 and TIF 97 Special Revenue Funds* account for financial resources that are legally restricted for activities within specific districts of the downtown development authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported as the City's capital assets.

Accrued compensated absences - Employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation accumulates to a maximum of five weeks. Sick leave accumulates and is paid to employees at the time of retirement at one-half of total days accumulated up to a maximum of 120 days (60 paid days). The estimated amount due to employees as of June 30, 2004 is accrued in the government-wide financial statements.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

Budgetary Information – The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

For the year ended June 30, 2004, the TIF 2 special revenue fund had budgeted expenditures of \$518,850 and actual expenditures of \$524,465.

2. CASH AND INVESTMENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City's cash and investment pool.

The Authority is authorized to invest in the same types of investments as the City.

The Authority's cash and cash equivalents are comprised of bank deposits held with a financial institution and had a balance of \$767,449 at June 30, 2004.

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$775,160. Of that amount, \$100,000 was covered by federal depository insurance and the remainder of \$675,160 was uninsured and uncollateralized.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

3. RECEIVABLES

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. This deferred revenue consists of taxes that will be captured in the future by the Brownfield tax districts to reimburse for costs incurred in this and past fiscal years for economic development. At the end of the current fiscal year, the various components of deferred revenue amounted to \$1,809,800. The remaining receivable amount of \$18,880 will be collected within one year.

4. INTERFUND PAYABLES AND RECEIVABLES

The composition of interfund balances is as follows as of June 30, 2004:

<u>Due From</u>	<u>Due To</u> General Fund
Special Revenue Funds	
TIF 2	\$ 6,048
TIF 97	<u>6,048</u>
	<u>\$ 12,096</u>

Amounts represent administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds.

5. LONG-TERM LIABILITIES

Changes in long-term debt consist of the following:

	<u>Balance</u> <u>07/01/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/04</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$28,345	\$ -	\$ 29	\$28,316	\$ -

Compensated absences are generally liquidated by the General Fund.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

6. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the Downtown Development Authority for the 2003 levy were assessed and equalized at \$36,317,869, representing 50 percent of estimated current market value. The Authority's general operating tax rate for fiscal year 2003-04 was 1.8173 mills.

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to two tax increment financing agreements, TIF 2 and TIF 97, between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City of Traverse City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Grand Traverse. Property tax revenue is recognized when levied in the government-wide financial statements, and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1985 for TIF 2 and 1997 for TIF 1997. The base year on other properties is determined by the date of entry into the district. The taxable value captured for TIF 2 is \$12,973,595 and TIF 97 is \$22,720,516.

7. RENTAL AND FEE INCOME

The DDA entered into a contract from September 1, 2003 to August 31, 2004 with the Downtown Traverse City Association (a non-for-profit organization) in which the DDA provides office space and administrative services to the association for an annual fee of \$44,500 payable in equal monthly installments of \$3,708. Income under this contract for the year ended June 30, 2004 was \$44,496.

The DDA entered into a contract with the City Opera House in October 2003 whereby the term of the agreement is indefinite, but may be terminated by the DDA for any or no reason upon 90 days prior written notice. Under the terms of this agreement the DDA agrees to operate, manage and maintain the Opera House at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2004 was \$3,476.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

The DDA entered into a contract with the State Theatre Group in March 2004 whereby the term of the agreement is indefinite, but may be terminated by either party for any or no reason upon 60 days prior written notice. Under the terms of this agreement the DDA agrees to provide administrative staff support to market, advertise and promote the State Theatre Group in a manner consistent with the goals of the organization at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2004 was \$13,571.

The DDA entered into a contract on June 19, 2003 with the City of Traverse City in which the DDA will operate and manage the Larry C. Hardy Parking Deck for an annual fee of \$205,000 payable in equal monthly installments of \$17,083. Income under this contract for the year ended June 30, 2004 was \$205,000.

8. RISK OF LOSS

The DDA is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The DDA is covered for these risks through the City of Traverse City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Insurance Fund and commercial health insurance.

9. TIF 2 FUND DEFICIT

During prior years, significant expenditures were incurred in the TIF 2 District Fund that were paid for in part through a long-term advance from the City's Industrial Park Fund. These transactions resulted in a deficit fund balance at year end. The deficit fund balance will be eliminated as future tax revenues are collected.

* * * * *